

SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

March 31, 1983
3:00 p.m.
Roosevelt Room

Attendees: (U)

Treasury

Secretary Regan
Marc Leland

Office of the Vice President
G. Philip Hughes

State

W. Allen Wallis

Defense

Fred Ikle
Stephen Bryen

Agriculture

Richard Lyng
Alan Tracy

Commerce

Lionel Olmer

CIA

Henry Rowen

USTR

Michael B. Smith

Export-Import Bank

Warren Glick

OMB

Alton G. Keel

CEA

Paul Krugman
Glenn Nelson

OPD

Edwin L. Harper
Roger Porter

NSC

Robert C. McFarlane
Norman Bailey, Executive Secretary
Henry Nau
Roger Robinson

NSC review completed.

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Secretary Regan opened the meeting with a brief review of the international debt situation. He explained that presently a group from Treasury was in Brazil and had already met with President Figueiredo for 1-1/2 hours, as well as with the Planning and Finance Ministers, to discuss Brazil's follow-up to its IMF program. It was reported that Secretaries Regan and Shultz will travel to Mexico on April 18-19 in the context of our bilateral commission. There was a discussion of using Exchange Stabilization Fund for short-term lending assistance to countries such as Peru and Chile. Secretary Regan said he did not intend to use these funds for Peru and Chile despite requests because their problems did not present problems to the system as Mexico and Brazil had done. (C)

Secretary Regan requested that Allen Wallis make a presentation on the status of the East-West studies to the SIG-IEP which is the coordinating body for these efforts. Under Secretary Wallis reported that frequent meeting had been held between the chairmen of the respective working groups. In COCOM, Under Secretary Schneider will lead the U.S. delegation to the second high-level meeting (HLM) in late April (the first held in January 1982). The key proposal

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will be for an on-going list review and immediate implementation of those controls already agreed upon. The U.S. delegation will also emphasize the issues of enforcement, harmonization of licensing procedures, and an upgrading of the COCOM secretariat. The State Department was reported as holding bilaterals concerning our objectives for other high technology items including oil and gas technology. COCOM agreed to an ad hoc group meeting on this subject on April 13-14 that would, in turn, report to the second HLM. (C)

In the energy category, we are very satisfied with the IEA's conclusions including limiting any one non-OPEC supplier of gas to 30 percent of a country's total gas supplies. In general, the IEA went along with our objectives largely due to the positive intervention of IEA Director Lantzke. (C)

In OECD, the methods of tracking trade and financial flows were discussed at the last XCSS meeting, and a study is underway on the balance of advantages in East-West trade (to deal more effectively with the monopsony power of Soviet state trading companies). On export credits, there is a problem with France which wishes to lower the consensus interest rate. This issue may not be resolved in advance of the OECD Ministerial. (C)

In NATO, the study on the security dimensions of East-West trade are going reasonably well. The permanent Economic Secretariat of NATO was described as having formerly been neglected with insufficient capabilities to deal with these issues. The strong U.S. emphasis on the security aspects of East-West trade should help provide new incentives for on-going work in this area by the Economic Committee. We are taking steps to keep Japan, Australia, and New Zealand informed of developments. (C)

This presentation was followed by a discussion during which Under Secretary Wallis explained the need for U.S. sensitivity on the public presentation of the East-West economic agenda item at Williamsburg in order to avoid disruptive public statements by the French. Secretary Shultz and Judge Clark were reported to be coordinating on an approach which would balance the achievement of U.S. objectives in the work programs with the public presentation of these efforts. In sum, it is believed we will have concrete progress on all the work programs with the possible exception of NATO by Williamsburg. (C)

The next topic discussed was the U.S.-Japan Energy Working Group. Secretary Regan requested Under Secretary Wallis to report on progress. Wallis stated that preparations were well underway for the first meeting here on April 6-7 and that Secretary Hodel had agreed to make welcoming remarks. Although the oil export issue will be discussed, it should not dominate

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the proceedings. Norman Bailey stated that the objectives of the working group are basically to identify then reduce or eliminate government constraints to otherwise commercially viable deals. The first meeting should develop a consensus concerning logical areas of cooperation and be an opportunity to gauge the initial Japanese response. Lionel Olmer expressed concern that our share of Japanese coal imports has declined from 37 percent to 22 percent due to Japan cutting separate deals with other suppliers. He commented that our objective should be to generate long-term coal supply contracts. Secretary Regan seconded this concern by stating that Senator Byrd and others on Capitol Hill were interested in expanding U.S. coal exports to Japan. (C)

The final topic of the meeting was progress on U.S.-EC farm talks. Secretary Regan requested a report from USTR Ambassador Smith. Ambassador Smith stated that the two meetings with Hamperkamp and Davignon of the EC had been useful but that no concrete results had emerged. The three issues discussed included wheat, dairy products and poultry. On wheat, nothing significant was concluded, but Ambassador Brock put forward the idea that both sides absorb their own dairy product surpluses. There was agreement not to talk to New Zealand until the U.S.-EC discussions were concluded. On the issue of poultry, there was agreement that Brazil would eventually have to be brought into the discussion. (C)

It was added that it was important that we had agreed on a joint permanent arrangement to share data to be used in forecasting assumptions, which would help us penetrate the EC data base. As to our broader objectives, Dick Lyng reported that the EC is overproducing for their own needs and is increasingly subsidizing exports, in turn, reducing our market share in third countries. There should be a gradual resolution to this problem, and we have not retaliated more strongly in the hope of achieving progress (although no commitment was made not to retaliate in the future). The discussion concluded with the statement that we need to freeze or reduce annual domestic price supports, the EC put a cap on subsidies commodity by commodity and negotiate a GATT subsidy code. The EC has so far not agreed to any of these proposed measures. (C)

Classified by Marc E. Leland